

**TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE**



**FISCAL NOTE**

**HB 17**

February 10, 2011

**SUMMARY OF BILL:** Authorizes retired state employee and teacher members of the Tennessee Consolidated Retirement System (TCRS) to change from an optional form of retirement with survivor benefits to the regular form of retirement without survivor benefits in the event of divorce. Creates the same option for retired employees of local governments that elect to offer it.

**ESTIMATED FISCAL IMPACT:**

**Increase State Expenditures - \$274,500**

**Increase Federal Expenditures - \$52,500**

**Increase Local Expenditures - \$78,000/Mandatory\*  
\$33,000/Permissive**

**Other Fiscal Impact – The total additional lump sum liability to the Tennessee Consolidated Retirement System is estimated to be \$4,465,200.**

**Assumptions:**

- TCRS provides retirement benefits for retired state employees, retired teachers, and retired local government employees.
- TCRS indicates that approximately 18,600 retirees have elected an optional plan of retirement with survivor benefits with the spouse named as beneficiary.
- Based on divorce rates for individuals over the age of 50, it is estimated that 11 percent of these retirees (2,046) will divorce and request a change from the optional plan of retirement to the regular plan of retirement for the purpose of maximizing retirement benefits.
- Based on retiree distribution as of June 30, 2010, it is estimated that 36.80 percent (753) will be retired state employees, 34.22 percent (700) will be retired teachers, and 28.98 percent (593) will be retired local government employees.
- Based on information provided by TCRS, the annual reduction of benefits for the 753 retired state employees and the 700 retired teachers (relative to maximum benefits that these retirees would be receiving if they had chosen the regular plan during enrollment) is estimated to be \$405,000 per year.
- Retirement benefits for retired state employees are funded 75 percent with state funds and 25 percent with federal funds.

- Retirement benefits for retired teachers are funded 60 percent with state funds and 40 percent local government funds. There will be a mandatory increase in local expenditures for these retired teachers.
- Based on the above funding ratios, the recurring increase in state expenditures is estimated to be \$274,500; the recurring increase in federal expenditures is estimated to be \$52,500; the recurring mandatory increase in local expenditures is estimated to be \$78,000.
- According to TCRS, if all local governments permit retired local government employees to change from the optional plan of retirement to the regular plan of retirement in the event of divorce, the total cost to local governments would be approximately \$165,300 per year.
- Retirement benefits for retired local government employees are funded 100 percent by local government.
- Twenty percent of local governments elect to permit retired local government employees to change from the optional plan of retirement to the regular plan of retirement in the event of divorce. As a result, the permissive increase in local government expenditures is estimated to be \$33,000 (\$165,300 x 20%) per year.
- Pursuant to Tenn. Code Ann. § 3-9-103(b), TCRS utilizes a 20-year horizon for estimating the additional lump sum liability.
- Pursuant to Tenn. Code Ann. § 8-34-505, TCRS utilizes a 7.5 percent interest rate for estimating the additional lump sum liability.
- Assuming a 20-year horizon, a 7.5 percent interest rate, and annual payments of \$405,000 for retired state employees and retired teachers, the additional lump sum liability will be \$4,128,800.
- Assuming a 20-year horizon, a 7.5 percent interest rate, and annual payments of \$33,000 for retired local government employees, the additional lump sum liability will be \$336,400.

\*Article II, Section 24 of the Tennessee Constitution provides that: *No law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc